

**PIERCE COUNTY HOUSING AUTHORITY**  
**Pierce County, Washington**  
**July 1, 1991 Through June 30, 1993**

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**Schedule Of Findings**

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1. General Ledger Internal Controls Should Be Improved

During our audit we found that internal controls over the housing authority's general ledger system were not adequate to ensure the safeguarding of assets and accuracy of accounting information. We found weaknesses that affected the housing authority's ability to prepare accurate and timely year-end financial reports. These weaknesses included:

- a. Transactions were posted to the incorrect fiscal period.
- b. Transactions were posted to the incorrect fund.
- c. Transactions were posted in the incorrect amount.
- d. There were no formalized procedures for the preparation and processing of general ledger journal entries.
- e. There were no formal procedures for reconciling the subsidiary records to the general ledger on a frequent basis.
- f. There were no formal year-end closing procedures for the general ledger system.
- g. There were no formal records retention policies for important accounting transaction summary reports.
- h. There were no computer controls to prevent transaction posting dates to differ from the actual calendar day of posting.

The housing authority has been in the process of upgrading its computerized accounting systems and procedures for the last few years. Additionally, significant staff turnover has occurred in the finance department in the last few years.

When internal controls for the general ledger systems are weak or absent, the risk increases that errors or irregularities could go undetected for some time. Also, the ability to prepare accurate and timely financial information is greatly impaired.

We recommend the housing authority correct the weaknesses as mentioned above. We also recommend the housing authority develop adequate internal controls for the general ledger system which will permit accurate and timely financial information.

2. The Housing Authority Should Document All Adjustments To Tenants' Gross Income (Section 8 Programs)

Our review of housing authority tenant files disclosed that some files did not have the required documents to support deductions to arrive at a tenant's adjusted income. A number of deductions are permitted to arrive at a tenant's adjusted income for purposes of calculating tenant rents and HUD housing assistance payments for the Section 8 programs. One such deduction is a deduction of \$480 annually for each dependent. The housing authority did not always obtain the necessary documentation to support this deduction.

Section 813.102 of the 24 CFR Chapter VIII defines 'Adjusted Income':

Annual income less the following allowances, determined in accordance with HUD instructions: (a) \$480 for each Dependent;

The same section defines 'Dependent' as:

A member of the Family household other than the Family head or spouse, who is under 18 years of age or is a Disabled Person or Handicapped Person, or is a Full-time Student.

Section 882.212 of the 24 CFR Chapter VIII states in part:

At the time of the annual reexamination of family income and composition, the PHA shall require the family to submit any certification, release, information, or documentation as the PHA or HUD determines to be necessary.

The housing authority's policy is to accept the Income and Asset Statement as verification for household composition and the number of dependents. Additional documentation is required to verify a full-time student status for dependents over 18 years old. Our testing of the Section 8 tenant files disclosed instances where the prescribed documentation was not present or the documentation present did not correspond to the deductions used to determine adjusted income.

The absence of the documentation was apparently overlooked during the annual review of each tenant's income qualification. As Section 8 tenants pay 30 percent of their adjusted income as rent, the effect is to reduce the tenant's rent amount and correspondingly increase the housing assistance paid by HUD each month. For each tenant for which the dependent deduction is not supported, the annual cost to HUD is \$144. The questioned costs for the 1993 fiscal year are \$324.

We recommend all deductions to tenants' gross income be supported with acceptable documentation.

3. The Housing Authority Should Revise Rents Based On Reexaminations

Changes in contract rent amounts were not always entered into the housing authority's computer system in a timely manner.

During our testing of the Section 8 tenant files we noted one file that, as a result of interim reexaminations, had the contract rent revised four times. The resulting revised HUD housing assistance payment amounts were not entered into the housing authority's computer system until one month after the first interim revision, three months after the second interim revision, and four months after the fourth revision which resulted in the tenant overpaying rent one month and underpaying rent eight months during fiscal year ended June 30, 1993. The total questioned costs for fiscal year 1993 are \$555.

The U.S. Department of Housing and Urban Development (HUD) Housing Assistance Payments Program Accounting Handbook 7420.6, Chapter 3 requires that:

A Housing Assistance Payments register . . . be maintained in a manner which will enable the PHA to verify the housing owner's monthly requests for housing assistance payments and the adjustments thereto.

Inadequate internal controls over cash disbursements and inadequate maintenance of a housing assistance payments register allowed this condition to exist and go undetected for some time.

We recommend the housing authority strengthen their internal controls over cash disbursements, increase the maintenance of the housing assistance payments register and reconcile the cash disbursements of HAP payments to the housing assistance payments register monthly.

4. Officials Should Develop A Systematic And Rational Indirect Cost Allocation Plan

We examined the methods used by the housing authority for accounting and allocating indirect costs among all its programs. The housing authority administers several U.S. Housing And Urban Development (HUD) low-income housing assistance programs in addition to owning a substantial number of multifamily apartment complexes. At the time of our audit, the housing authority did not have an adequate method to account for indirect costs that were allocable to federal programs. Additionally, we found indirect payroll costs that were not allocated to federal programs that the housing authority was entitled to charge, but did not. During the year 1993, the total indirect costs amounted to \$733,918.69 of which \$422,379.50 were allocated to various federal programs.

Since most programs administered were low-income housing assistance (Section 8 Vouchers and Certificates), indirect costs allocated to federal programs did not result in an over-charge to HUD because the housing authority was entitled only to a fixed administrative fee. However, for the public housing development and management programs, an indirect cost may result in an over-charge to HUD. Due to the problems noted with the accounting records it was not practicable for us to determine a net over or under charge to HUD.

For public housing development and management programs, HUD regulations require all indirect costs charged to be based upon a systematic and rational method. Due to a large number of staff turnover in the finance department, the methods used by the housing authority to determine cost allocations has not been adequately formalized.

When indirect cost allocation methods are not systematic and rational, officials may impair their ability to seek reimbursement for costs entitled to reimbursement.

We recommend housing authority officials develop a systematic and rational indirect cost allocation plan.

5. Only Allocable Costs Should Be Charged To Federal Programs

During our audit, we examined expenditures charged to a federal program for a development project (WA19-009) that were indirect charges from the housing authority. We found some costs that did not appear to be allocable to the federal program (CFDA 14.850). Total billings to the U.S. Department of Housing and Urban Development (HUD) for this project were \$2,082,688, less \$288,421 for HUD adjustments, resulting in a net \$1,794,267. We examined the cost certificate submitted by the housing authority for this project and found \$67,040.94 of questioned costs.

We questioned these costs due to accounting errors or omissions as listed below:

Incorrect project	\$ 2,933.97
Double billed	359.60
Inadequate records	255.45
No support	35,100.54
No time records	27,337.04
Unclear necessity	932.82
Unclear necessity	93.97
Unclear necessity	15.55
Unclear necessity	<u>12.00</u>
	<u>\$67,040.94</u>

OMB Circular A-87 requires all costs charged to the federal development program be necessary and adequately supported by accounting records.

These errors resulted from staff that were not experienced with accounting for development projects in accordance with federal requirements.

We recommend housing authority officials properly account for federal development project costs. We also recommend internal controls be strengthened in the accounting for these projects.

6. Housing Authority Officials Should Include All Required Provisions In Contracts

The housing authority had construction contracts funded by the United States Department of Housing and Urban Development (HUD). The construction contracts lacked provisions for compliance with requirements of Equal Employment Opportunity, the Copeland "Anti-Kickback" Act, the Davis-Bacon Act and Contract Work Hours and Safety Standards Act and provisions for mandatory standards and policies in compliance with the Energy Policy and Conservation Act. The contracts we examined were the standard contracts used by the authority.

The "Common Rule" for *Uniform Administrative Requirements for Grants and Cooperative Agreements with State and Local Governments*, procurement requirements for HUD programs are covered by 24 CFR 85.36. 24 CFR 85.36(i) Contract provisions, requires the authority to include contract provisions, for all contracts, for compliance with the Copeland "Anti-Kickback" Act; for contracts in excess of \$2,000, for compliance with the Davis-Bacon Act and compliance with Sections 103 and 107 of the Contract Work Hours and Safety Standards Act; for contracts in excess of \$10,000, for compliance with the Executive Order entitled, "Equal Employment Opportunity".

In addition, while the contract work documents were very specific about the brand and kind of paint to be used, they failed to contain a clause to specifically prohibit the use of lead-based paint per 24 CFR 35.63(b) which states in part:

. . . regulations shall require the inclusion of appropriate provisions in contracts and subcontracts . . . prohibiting such use of lead-based paint, and shall include provisions for enforcement of that prohibition.

Without the required contract provisions, the contract does not meet all federal requirements.

The contract provisions regarding compliance were not included in the contracts as the authority was not aware of the requirements for these provisions. The prohibition against the use of lead-based paint was omitted because the housing authority staff did not realize that a specific prohibition against the use of lead-based paint was required, inasmuch as lead-based paint can no longer be purchased.

We recommend future construction contracts funded by HUD include all provisions as required by federal laws and regulations.

7. The Housing Authority Should File Federal Reports Timely, Accurately And Completely

The housing authority submitted their 1992 annual financial reports to the U.S. Department of Housing and Urban Development (HUD) for the Low Income Public Housing (LIPH) program 199 days after the year end. The 1993 annual financial reports submitted by the housing authority to HUD for the Section 8 housing assistance programs and the Low Income Public Housing (LIPH) program were not complete and supported by the books of account for each program.

- a. In conjunction with testing federal financial reports, we tested all major award reports. The Statement of Operating Receipts and Expenditures (HUD-52599) and the Balance Sheet for Section 8 and Public Housing (HUD-52595) for the LIPH Management program were filed 199 days after year end. The Voucher for Payment of Annual Contributions and Operating Statement (HUD-52681) and the Balance Sheet for Section 8 and Public Housing (HUD-52595) for the Section 8 programs were going to be filed late as the housing authority was unable to complete the preparation of the annual financial reports by the due date. The authority consequently requested and received a 90-day filing extension which they subsequently met.

HUD regulations require that annual financial reports be submitted not later than 45 days after year end.

Late filing could potentially result in a delay in receiving federal funding.

In addition, we tested the federal financial reports for accuracy and completeness of submission. Our tests of the Section 8 Voucher for Payment of Annual Contributions and Operating Statement (HUD-52681) and Balance Sheet for Section 8 and Public Housing (HUD-52595) disclosed numerous discrepancies between what was recorded in the general ledger and what was reported in the HUD reports. The original set of annual reports submitted to HUD revealed so many errors that the housing authority revised the reports in an attempt to correct as many errors as was practical. Our subsequent testing of these revised reports also disclosed errors but which were in the aggregate considered to be immaterial. However, the Low Income Public Housing Statement of Operating Receipts and Expenditures (HUD-52599) and Balance Sheet for Public Housing (HUD-52595) reports did contain errors which in the aggregate were considered to be material to the accurate presentation of the federal financial reports. The HUD *Low-Rent Housing Accounting Handbook* 7510.1, Chapter 13 requires that:

. . . the Local Housing Authority (LHA) shall . . . determine that all transactions . . . applicable to the period have been recorded in the books of account prior to the preparation of financial reports. In addition, trial balances of the general ledger and all subsidiary ledgers shall be prepared and a determination made that all subsidiary ledgers are in agreement with the applicable general ledger control accounts.

The HUD Section 8 *Existing Housing Program Handbook* 7420.7 Chg-8, Chapter 12 states in part that:

PHA's also are required to maintain complete and accurate books of accounts and records for each program under the ACC. The books and records must comply with HUD

requirements and must permit a speedy and effective audit.

In addition, we tested the Calculation of Performance Funding System (PFS) Operating Subsidy for accuracy and completeness of submission. We noted the following errors or omissions made by the housing authority in preparation of this report:

Projected Occupancy percentage was not determined using HUD-52728-A worksheet in accordance with 24 CFR Part 990.109(b)(3). The percentage used was not accurate.

The estimated per unit month (PUM) cost of an independent audit was miscalculated which resulted in the amount being overstated by .21 PUM.

#### 1992

The housing authority estimated the cost chargeable for an independent audit would be \$1,500. The year-end Statement of Operating Receipts and Expenditures, form HUD-52599 reported zero actual expense incurred for accounting and auditing fees (line 220).

#### 1993

For 1993, the total rent roll dollar amount reported did not agree to the housing authority's rent roll records for May 1, 1992. The total rent roll was understated by \$187.

The housing authority estimated the cost chargeable for an independent audit would be \$3,000. The year-end Statement of Operating Receipts and Expenditures, form HUD-52599 reported \$629 actual expense incurred for accounting and auditing fees (line 220). The PFS Operating Subsidy was not revised to reflect the actual costs as required in 24 CFR 990.108(a).

The HUD instructions to the Calculation of the PFS Operating Subsidy, state in part:

Mandatory adjustments. Certain of the above adjustments are mandatory for any PHA fiscal year in which operating subsidy is approved . . . (3) Adjustment of the estimated cost of an independent audit (Audit Adjustment) after the PHA knows the actual cost.

If the amount reported for the cost of an independent audit is an estimate, this form must be revised. This adjustment is mandatory. PCHA did not make the required adjustment after the actual cost was known of \$629 and (\$0) for 1993 and 1992, respectively.

The failure to submit the revised PFS Operating Subsidy results in questioned costs of \$1,474 and \$1,504 for 1993 and 1992, respectively. The amount the operating subsidy would have been reduced if the adjustment for the estimated cost of an independent audit had been made.

- b. In conjunction with testing federal financial reports, we tested all major award reports for accuracy and completeness of submission. Our tests of the Section 8 Voucher for Payment of Annual Contributions and Operating Statement



(HUD-52681) and Balance Sheet for Section 8 and Public Housing (HUD-52595) disclosed reported amounts that were not supported by the books of account. In addition, for project WA19V054004017 the preliminary expenses were not reported separately with attached supporting documentation as required by HUD. Also, for this same project the general ledger was corrected after the year-end reports were submitted causing some of the submitted data on the balance sheet to be inaccurate. The errors in the aggregate were considered to be immaterial.

Our testing of the Public Housing program federal financial reports disclosed reported amounts that were not supported by the books of account on both the Low Income Public Housing Statement of Operating Receipts and Expenditures (HUD-52599) and the Balance Sheet for Public Housing (HUD-52595). These reports contained errors which in the aggregate were considered to be material to the accurate presentation of the federal financial reports. In addition, our tests of the Balance Sheet for Section 8 and Public Housing (HUD-52595) submitted for the Public Housing programs disclosed that the housing authority omitted reporting the amount of accrued annual leave of employees as required by HUD. The HUD prescribed, Instructions for Preparation of Form HUD-52595 Balance Sheet for Section 8 and Public Housing, under General, paragraph c(2)(b) states in part that:

The space provided for reporting the amount of accrued annual leave of employees is to be completed by all PHAs which have adopted a personnel policy which requires payment to terminated employees for any accumulated annual leave not used as of the date of termination of employment.

We recommend the housing authority establish year-end closing procedures that will allow for the timely preparation of their federal financial reports and that emphasis be placed on the timeliness of report submission. We further recommend the housing authority submit the mandatory adjustments to the PFS Operating Subsidy each fiscal year.